

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AGR-05 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 SAJ-01 /086 W
----- 105758

P R 301310Z JAN 76

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC PRIORITY 9595

INFO AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

C O N F I D E N T I A L SECTION 1 OF 2 HELSINKI 0210

E.O. 11652: GDS

TAGS: ELAB, PINT, ECON, FI

SUBJECT: AGREEMENT REACHED ON INCOMES POLICY

1. SUMMARY: AN OVERCOOKED INCOMES POLICY SETTLEMENT THAT WILL NOT COMPLETELY SATISFY THE APPETITES OF LABOR, AGRICULTURE, OR MANAGEMENT IN THE HARD TIMES AHEAD FOR FINLAND IN 1976 FINALLY EMERGED FROM THE PRESSURE COOKER OF THE NATIONALLY CENTRALIZED COLLECTIVE BARGAINING NEGOTIATIONS ON JANUARY 27. THE MASTER CHEF -- PRESIDENT KEKKONEN -- HAD TO TURN UP THE HEAT TO PRODUCE THE FINAL RESULT AND

HIS PERSONAL PRESTIGE WILL BE INVOLVED AS THE PUDDING IS EATEN. THE MAIN ELEMENTS OF THE 12-MONTH SETTLEMENT ARE A NEARLY SEVEN PERCENT INCREASE IN WAGES AND SALARIES, PRICE CONTROLS MORE RIGID THAN EVER BEFORE, AND AN INCREASE IN AGRICULTURAL PRICES AND SUPPORT PAYMENTS WHICH BY ITSELF WILL RESULT IN IMMEDIATE ONE PERCENT INCREASE OF COST OF LIVING INDEX. ESTIMATES OF PROBABLE 1976 INFLATION RATE, IN LIGHT OF SETTLEMENT, RANGE AROUND 10 PERCENT -- FAR ABOVE 5 PERCENT NEGOTIATING TARGET AND PROBABLY
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ONE OF HIGHEST IN WESTERN EUROPE IN 1976. THIS MAY

MAKE IT IMPOSSIBLE FOR FINLAND TO AVOID DEVALUATION IN 1976. GOVERNMENT EMERGES FROM NEGOTIATIONS WITH NEW LEASE ON LIFE ALTHOUGH SHOALS LIE AHEAD, PARTICULARLY WITH REGARD TO TAX POLICY. TRADE UNION COMMUNISTS AND SOCIAL DEMOCRATS MAINTAINED UNITED FRONT FOR FIRST TIME IN YEARS AND WERE ASSISTED BY LEFTWARD-LEANING PRESIDENT WHO HAS INVOLVED HIS PERSONAL PRESTIGE TO UNUSUAL EXTENT IN SUCCESS OF "NATIONAL EMERGENCY" GOVERNMENT HE FORGED TWO MONTHS AGO. EMPLOYERS CONSIDER SETTLEMENT BEST THAT COULD BE ACHIEVED IN CIRCUMSTANCES BUT ARE UPSET AT INCLUSION OF CLAUSE REGARDING POSSIBILITY OF REOPENING AGREEMENT IN SEPTEMBER. END SUMMARY.

2. TERMS OF SETTLEMENT. AFTER POSTPONEMENT OF AT LEAST 6 "DEADLINES", NEGOTIATIONS FOR A NEW "INCGMES POLICY SETTLEMENT" TO SUCCEED THE CURRENT 22-MONTH AGREEMENT, WHICH EXPIRES JANUARY 31, REACHED THEIR APPARENT CONCLUSION EVENING JANUARY 27. NEW AGREEMENT IS FOR 12 MONTHS AND WILL NOT BE IN FINAL FORM FOR SEVERAL WEEKS SINCE DETAILED UNION-LEVEL AGREEMENTS REMAIN TO BE WORKED OUT AND RESPONSIBLE DECISION-MAKING BODIES OF MAJOR NEGOTIATING PARTNERS MUST STILL GIVE THEIR BLESSING. FINNISH TRADE UNION CONFEDERATION (SAK) COUNCIL MEETS FEBRUARY 11, BY WHICH TIME FINNISH EMPLOYERS' CONFEDERATION (STK) AND MOST OTHER ORGANIZATIONS WILL HAVE MADE FINAL DECISIONS. THE ESTIMATED TOTAL INCREASE IN THE EMPLOYERS' AVERAGE WAGE BILL IS 6.7 PERCENT (NEGOTIATIONS STARTED IN EARNEST JANUARY 17 WITH STK OFFERING 3 PERCENT PACKAGE AND SAK DEMANDING 8 PERCENT). INCREASES ARE SOMEWHAT WEIGHTED TOWARD THE LOWER END OF THE WAGE SCALE IN ACCORDANCE WITH LABOR'S EMPHASIS ON WAGE SOLIDARITY. THUS THE LEGAL MINIMUM WAGE GOES UP FROM 6.30 FINNMARKS PER HOUR TO 7.07 (\$1.86) FINNMARKS PER HOUR (IN FACT, 17 PENNI INCREASE ABOVE BASIC INCREASE TO 6.90 HAS NOT YET BEEN AGREED BUT IS VIRTUALLY CERTAIN). AGE AT WHICH MINIMUM WAGE MUST BE PAID IS SIMULTANEOUSLY DROPPED FROM 18 TO 17.

3. PRICE CONTROLS. PERHAPS MOST DIFFICULT ISSUE IN NEGOTIATIONS WAS PRICE CONTROLS. AGREEMENT CALLS FOR PRICE FREEZE OF FIVE MONTHS (EMPLOYERS ORIGINALLY OFFERED THREE MONTHS AND LABOR ASKED FOR SIX). STICKING POINT, HOWEVER, WAS TERMS OF PRICE CONTROL MECHANISM TO FOLLOW FREEZE. FEARING FINAL TERMS

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OF INCOMES SETTLEMENT WOULD RESULT IN COST/PRICE SQUEEZE ENDANGERING VIABILITY OF MANY BUSINESSES, EMPLOYERS VIGOROUSLY RESISTED GIVING ABSOLUTE POWERS TO PRICE CONTROL BOARD, ON WHICH THEY ARE IN MINORITY POSITION. COMPROMISE ON THIS ISSUE, GIVING MINORITY OF BOARD RIGHT TO SUBMIT CERTAIN PRICE DISPUTES TO GOVERNMENT, WAS REACHED ONLY AFTER PRESIDENT KEKKONEN CONVOKED LEADING NEGOTIATORS FOR EARLY MORNING SAUNA JANUARY 24. SINCE UNDER FINNISH LAW PRICE CONTROL LEGISLATION IS CON-

SIDERED "CONSTITUTIONAL" QUESTION IT REQUIRES FIVE-SIXTHS MAJORITY FOR PASSAGE INSINGLE SESSION OF PARLIAMENT. THUS OPPOSITION CONSERVATIVE PARTY HELD VETO POWER OVER PRICE CONTROL LAW WHICH IT THREATENED TO EXERCISE IF AGREEMENT ON WAGES NOT ACHIEVED. ON JANUARY 27, FINAL WORKING DAY OF "1975 SESSION" OF PARLIAMENT, PRIME MINISTER MIETTUNEN MADE COMPROMISE PROPOSAL BRIDGING FINAL DIFFERENCES ON WAGE NEGOTIATIONS WHICH WAS COUPLED WITH ASSURANCE TO CONSERVATIVES FROM KEKKONEN THAT HE WOULD NOT SIGN PRICE CONTROL BILL INTO LAW UNTIL FINAL APPROVAL ACHIEVED ON INCOMES POLICY. LAW WAS THEN PASSED WITH CONSERVATIVES -- APART FROM 3 RENEGADES -- VOTING IN ITS FAVOR. GOVERNMENT HAS SINCE DECLARED THAT PRICE FREEZE WILL BE RETROACTIVE TO JANUARY 21 AS SOON AS LAW TAKES EFFECT.

4. NEITHER BUSINESS INTERESTS NOR CONSERVATIVE PARTY IS HAPPY WITH PRICE CONTROL LAW. DRAFT ORIGINATED WITH LEFT-WING PARTIES AND NO CHANGES WERE MADE IN LEGISLATION ITSELF TO ACCOMMODATE EMPLOYERS AND BUSINESS INTERESTS. STK TERMS CONTROLS TOO STRICT AND EXPECTS THAT ADDITIONAL UNEMPLOYMENT WILL RESULT FROM THEIR APPLICATION. AT THE SAME TIME IT SHOULD BE NOTED THAT CONTROLS AFFECT ONLY ABOUT ONE-THIRD OF VOLUME OF INDUSTRIAL PRODUCTION AND THAT MOST OF BURDEN FALLS ON PRODUCERS AND RETAILERS OF CONSUMER GOODS. ALSO GOVERNMENT STATED DURING NEGOTIATIONS ON PRICE CONTROL MECHANISM THAT IN MAKING DECISIONS ON REQUESTS FOR PRICE INCREASES BOTH INDUSTRY PROFITABILITY AND EMPLOYMENT FACTORS WILL BE CONSIDERED.

5. AGRICULTURAL SETTLEMENT. NEGOTIATIONS BETWEEN GOVERNMENT AND FARM PRODUCERS ON AGRICULTURAL PRICES AND INCOMES WERE STILL NOT CONCLUDED AS OF JAN 29. TERMS OF THE SETTLEMENT ARE SUFFICIENTLY CLEAR, HOWEVER, TO ESTIMATE THAT THE AGREED PRICE INCREASES WILL CAUSE ONE PERCENT RISE IN CONSUMER PRICE
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INDEX AS SOON AS THEY GO INTO EFFECT (FULL DETAILS TO FOLLOW).

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EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 SAJ-01 /086 W

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P R 301310Z JAN 76

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC PRIORITY 9596

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6. EFFECT ON INFLATION. WHEN NEGOTIATIONS OPENED SAK SET TARGET FIGURE FOR 1976 INFLATION AT FIVE PERCENT (VS. 18 PERCENT FOR 1975). INCREASES ALREADY ANNOUNCED OR PROGRAMMED FOR 1976 PLUS PROSPECTIVE SIZE OF AGRICULTURAL SETTLEMENT PUT THIS GOAL IN QUESTION EVEN WITHOUT CALCULATING EFFECT OF INCREASED LABOR COSTS. SAK, HOWEVER, WANTED CLAUSE IN SETTLEMENT GIVING THEM RIGHT TO REOPEN NEGOTIATIONS IF INFLATION EXCEEDED FIVE PERCENT. THIS WAS VIGOROUSLY RESISTED BY EMPLOYERS. TO EMPLOYERS' DISAPPOINTMENT PRIME MINISTER MIETTUNEN'S COMPROMISE PROPOSAL INCLUDED MODIFIED VERSION OF SAK PROPOSAL WHICH CALLS FOR PARTIES TO MEET IN SEPTEMBER TO ASSESS PRICE DEVELOPMENTS DURING AGREEMENT PERIOD AND TO EXAMINE POSSIBLE MEASURES TO BE TAKEN. EMPLOYERS EMPHASIZE THAT UNIONS WILL NOT HAVE RIGHT TO ABROGATE AGREEMENT BEFORE END OF JANUARY 1977 BUT FEAR CLAUSE MAY PROVIDE EXCUSE FOR LABOR DISTURBANCES NEXT AUTUMN. MOST OBSERVERS NOW PREDICT THAT INFLATION RATE OF ABOUT 10 PERCENT IS THE BEST FINLAND CAN DO IN 1976. STK CHAIRMAN NOTED, HOWEVER, IN CONVERSATION WITH LABATT THAT THIS RATE WILL STILL BE ONE OF EUROPE'S HIGHEST -- A CLEAR IMPLICATION THAT DEVALUATION OF THE FINNMARK SOMETIME THIS YEAR IS INCREASINGLY PROBABLE.

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7. BARGAINING DYNAMICS. THIS YEAR'S BARGAINING WAS EVEN MORE ARDUOUS AND PROTRACTED THAN USUAL. THE REASONS ARE MANY. THIS SETTLEMENT WAS INTENSELY POLITICAL AND THE INDIVIDUAL PRESTIGE OF MANY OF THE ACTORS -- EITHER ON STAGE FOR THE FIRST TIME OR PLAYING NEW ROLES -- WAS AT STAKE. THE MAJOR POLITICAL FACTOR WAS THE WATERSHED DECISION OF THE MAJORITY FACTION OF

THE FINNISH COMMUNIST PARTY TO PARTICIPATE IN THE PRESENT COALITION GOVERNMENT. THIS IN TURN ENABLED THE TRADE UNIONS TO MAINTAIN A UNITED FRONT IN THE NEGOTIATIONS FOR THE FIRST TIME SINCE THE GENERAL STRIKE YEAR OF 1956. THE DEPRESSED ECONOMIC SITUATION STRENGTHENED THE HAND OF THE EMPLOYERS AND STAGE WAS SET FOR TEST OF WILLS. FACED WITH THIS STANDOFF-- AND EQUALLY TOUGH DEMANDS FROM AGRICULTURAL PRODUCERS-- PRESIDENT KEKKONEN, WHOSE OWN PRESTIGE IS HEAVILY INVOLVED IN SUCCESS OF GOVERNMENT, WAS INEXORABLY DRAWN INTO THE VORTEX. AT FIRST HE TOLD NEGOTIATORS, "I WILL NOT PUT MY SPOON IN THIS SOUP." BY THE END, HOWEVER, HE WAS STIRRING VIGOROUSLY.

8. THE TRADE UNION NEGOTIATORS MAINTAINED CLOSE RELATIONS WITH THEIR RESPECTIVE POLITICAL PARTY ORGANIZATIONS AS WELL AS WITH EACH OTHER. SAK CHAIRMAN PEKKA OIVIO GETS ALONG WELL WITH SDP CHAIRMAN KALEVI SORSA AND SAK SECOND CHAIRMAN ARVO HAUTALA, WHO ONE OF THE PRINCIPAL FORCES BEHIND PARTICIPATION OF MAJORITY FACTION OF COMMUNISTS IN THIS GOVERNMENT, AND WHO COORDINATED CLOSELY WITH HIS FACTION'S MINISTERS, PARTICULARLY HOUSING MINISTER OLAVI HANNINEN WHO WILL PROBABLY SUCCEED HAUTALA IN SAK NEXT SUMMER. OIVIO'S PERFORMANCE IN ACTUAL NEGOTIATIONS WAS CRITICIZED AS WEAK BY CONFIDENTIAL EMPLOYER SOURCES. THIS VIEW IS CONTRADICTED BY SOCIAL DEMOCRATS WHO ARGUE THAT OIVIO'S SELF-EFFACING MANNER MAY BE RESPONSIBLE FOR THIS IMPRESSION. OIVIO, IN FACT, WAS DEMONSTRABLE LEADER OF SOCIAL DEMOCRATIC GROUP AND BY INCLUDING HAUTALA IN EVERY NEGOTIATING SESSION GAVE COMMUNISTS NO EXCUSE TO BACK OUT ALONG THE WAY. WHEN GOING GOT TOUGH LABOR COULD USUALLY COUNT ON PRESIDENT TO LEAN IN THEIR DIRECTION. AT ONE POINT KEKKONEN BLUNTLY TOLD ASSEMBLED NEGOTIATORS, "I UNDERSTAND HAUTALA BB LQSUOAN (STK CHAIRMAN) PARTANEN."

9. ON MANAGEMENT SIDE NEW ELEMENT WAS PARTICIPATION OF NEWLY-CONSOLIDATED FEDERATION OF FINNISH INDUSTRIES LED BY TIMO CONFIDENTIAL

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LAATUNEN, FORMER MANAGING DIRECTOR OF STK. LAATUNEN'S GROUP TOOK THE LEAD IN THE PRICE CONTROL NEGOTIATIONS, WHICH CAUSED SOME CONSTERNATION IN SAK, ACCUSTOMED TO DEALING PRINCIPALLY WITH STK. LAATUNEN'S SUCCESSOR AS STK MANAGING DIRECTOR, PENTTI SOMERTO, WAS FOREMOST SPOKESMAN FOR MANAGEMENT IN PUBLIC DISCUSSIONS AND ALSO BORE BRUNT OF NEGOTIATING RESPONSIBILITY ON MOST QUESTIONS.

10. PRESIDENTIAL ROLE. ACHIEVEMENT OF ELEVENTH-HOUR AGREEMENT WAS IN LARGE MEASURE THE RESULT OF PRESIDENTIAL PRESSURE. ALTHOUGH HE DID NOT DICTATE TERMS OF SETTLEMENT HE THREATENED AND CAJOLED IN MANNER OF WHICH ONLY HE IS CAPABLE. AT ONE POINT HE THREATENED TO DISSOLVE PARLIAMENT AND CALL NEW ELECTIONS. ALTHOUGH NO POLITICIAN WOULD HAVE

RELISHED NEW CAMPAIGN, THREAT PUT PARTICULAR PRESSURE ON DIVIDED COMMUNISTS TO KEEP THEIR DEMANDS WITHIN REASON. PRIME MINISTER MIETTUNEN'S FINAL COMPROMISE PROPOSAL WAS CERTAINLY COORDINATED WITH THE PRESIDENT, ALTHOUGH STK SOURCES TELL US THAT MIETTUNEN'S INCLUSION OF THE SEPTEMBER RE-EXAMINATION CLAUSE WAS AS MUCH A DISAPPOINTMENT TO KEKKONEN AS TO THE STK. KEKKONEN'S STAMP IS CLEARLY ON THE AGREEMENT, HOWEVER, AND HIS PRESTIGE WILL BE INVOLVED TO CONSIDERABLE DEGREE IN HOW ECONOMY PERFORMS IN 1976 PARTICULARLY WITH RESPECT TO INFLATION RATES, EFFICACY OF PRICE CONTROLS, AND UNEMPLOYMENT.

11. FUTURE OF MIETTUNEN GOVERNMENT. NOW THAT THE COMMUNISTS IN THE MIETTUNEN GOVERNMENT ARE COMMITTED TO THE INCOMES POLICY SETTLEMENT, CHANCES HAVE INCREASED FOR THEIR STAYING IN THE GOVERNMENT. HAVING OBTAINED A NUMBER OF MAJOR CONCESSIONS THEY MAY NOW HAVE TO MAKE SOME OF THEIR OWN. THE PRIME MINISTER PUT THEM ON NOTICE, IN THIS REGARD, BY DECLARING IN A RADIO INTERVIEW JANUARY 25, JUST AS THE NEGOTIATIONS WERE CONCLUDING, THAT NEITHER THE PRESENT GOVERNMENT NOR ANY FUTURE GOVERNMENT COULD MANAGE THROUGH THE YEAR WITHOUT RAISING THE SALES TAX BY AS MUCH AS TWO PERCENT. SINCE MIETTUNEN'S STATEMENT THERE HAS BEEN GENERAL EXPECTATION THAT THE COMMUNISTS WILL FIND A WAY TO GO ALONG WHEN IT COMES TIME TO BITE THAT PARTICULAR BULLET.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, WAGES, ECONOMIC PROGRAMS, LABOR OBJECTIVES
Control Number: n/a
Copy: SINGLE
Draft Date: 30 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: saccheem
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976HELSIN00210
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760036-0093
From: HELSINKI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976016/aaaaaegn.tel
Line Count: 301
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: saccheem
Review Comment: n/a
Review Content Flags:
Review Date: 15 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 APR 2004 by greeneet>; APPROVED <05 AUG 2004 by saccheem>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: AGREEMENT REACHED ON INCOMES POLICY
TAGS: ELAB, PINT, ECON, FI
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006